Assignment – Financial Policy & Corporate Strategy and Risk Management

Question 1

In a recent Board Meeting of N Ltd. following financials of N Ltd. for the year ending 31st March 2025 were presented:

Balance Sheet as on 31.03.2025

₹ '000

Liabilities		Assets	
Equity Capital	4,80,000	Fixed Assets	2,42,000
10% Bonds	92,000	Cash	88,000
Sundry Creditors	66,000	Sundry Debtors	1,10,000
Bills Payable	88,000	Closing Stock	3,3,0000
Other Current Liabilities	44,000		
Total Liabilities	**7,70,000**	**Total Assets**	**7,70,000**

Income Statement for the Year ending 31.03.2025

Particular	(₹ '000)	(₹ '000)
Sales		11,77,000
Less: Cost of Goods Sold		
Material	4,18,000	
Wages	2,64,000	
Factory Overheads	1,29,800	8,11,800
Gross Profit		3,65,200
Less: Selling & Distribution Cost	1,10,000	
Administrative Cost	1,22,800	2,32,800
Earnings Before Interest and Taxes (EBIT)		1,32,400
Less: Interest Charges		9,200
Earning Before Tax		1,23,200
Less: Taxes @ 50%		61,600
Net Profit (PAT)		**61,600**

During the Board Meeting:

(i) Director A said that the company can maintain a certain growth even though the net profit margin remains constant, and assets increases proportionately to sales and it distributes its 30% of its net profit. To maintain this growth rate, it will not require any external funds.

(ii) Director B proposed that just by maintaining a target capital structure and without issuing additional equity and maintaining target dividend pay-out ratio as proposed by Director A, more growth rate can be achieved.

(iii) Director C though agreed with views of Director A and Director B, but is of the view that in the coming year it is expected that sales is likely to rise by 15%, hence if required we can go for issue of equity shares, bonds or debentures to achieve the same growth in sales.

From the information given above, choose the correct answer to the following questions:

1. The Director A is talking about……………

(A) Internal Growth Rate

(B) Sustainable Growth Rate

(C) External Funding Requirements

(D) External Growth Rate

2. The Director B is talking about……………

(A) Internal Growth Rate

(B) Sustainable Growth Rate

(C) External Funding Requirements

(D) External Growth Rate

3. The Director C is talking about……………

(A) Internal Growth Rate

(B) Sustainable Growth Rate

(C) External Funding Requirements

(D) External Growth Rate

4. If we go by the proposal of Director C, then approximately……..funds shall be raised from in form of equity or debt, assuming that dividend as proposed by Director A is paid out and assets and current liabilities are increased in the same proportion as increase in sales.

(A) ₹ 1,15,500 thousand

(B) ₹ 85,800 thousand

(C) ₹ 79,332 thousand

(D) ₹ 36,212 thousand

Question 2

M/s Transindia Ltd. is contemplating calling ₹ 3 crores of 30 years, ₹ 1,000 bond issued 5 years ago with a coupon interest rate of 14 per cent. The bonds have a call price of ₹ 1,140 and had initially collected proceeds of ₹ 2.91 crores due to a discount of ₹ 30 per bond. The initial floating cost was ₹ 3,60,000. The Company intends to sell ₹ 3 crores of 12 per cent coupon rate, 25 years bonds to raise funds for retiring the old bonds. It proposes to sell the new bonds at their par value of ₹ 1,000. The estimated floatation cost is ₹ 4,00,000. The company is paying 40% tax and its after tax cost of debt is 8 per cent. As the new bonds must first be sold and their proceeds, then used to retire old bonds, the company expects a two months period of overlapping interest during which interest must be paid on both the old and new bonds. What is the feasibility of refunding bonds?

[Earlier CA Examination]

Question 3

Discuss some of the risks arising out of recent tension between India and Pakistan.

Question 4

Mr. R, a portfolio analyst at S Investments, is evaluating the risk of investing ₹ 5 crore in XYZ Tech Ltd, a volatile mid-cap stock. The expected daily return from the stock is 0.1% and Daily standard deviation (σ) is 2%.

The other information is follows:

1. Confidence levels:

- 99% (Z = 2.33)
- 95% (Z = 1.645)

- 91% (Z= 1.343)
- 90% (Z= 1.282)

2. No. of Trading Days in

- A week - 5 Days
- A fortnight - 10 Days
- A month - 20 Days

From the information given above, choose the correct answer to the following questions:

1. The chances that the portfolio could lose more than ₹ 52,02,000 in a span of a fortnight is……….

(A) 1%

(B) 5%

(C) 9%

(D) 10%

2. The purpose of the Z-factor in the VaR calculation is...............

(A) to calculate average return

(B) to scale the risk based on confidence level

(C) to eliminate volatility

(D) to determine capital structure

3. The VaR at 99% confidence for 15 days period of holding for the position taken is approximately……………….

(A) ₹ 23,30,000

(B) ₹ 52,10,000

(C) ₹ 73,68,000

(D) ₹ 90,24,000

4. The daily VaR at 99% confidence for the position taken is approximately……………….

(A) ₹ 23,30,000

(B) ₹ 52,10,000

(C) ₹ 73,68,000

(D) ₹ 90,24,000

5. The key assumption in the VaR method used in this scenario is………………..

(A) Returns follow a normal distribution

(B) Z-factor changes daily

(C) Market is always bullish

(D) No risk of loss